Let's analyze the code fragment step by step:

```
String string1 = "hello";
String string2 = string1;
string1 = "world";
StdOut.println(string1);
StdOut.println(string2);
```

1. `String string1 = "hello";`
   - This line initializes `string1` with the value `"hello"`.
2. `String string2 = string1;`
   - This line initializes `string2` with the same reference as `string1`. At this point, both `string1` and `string2` refer to the same string object `"hello"`.
3. `string1 = "world";`
   - This line changes the reference of `string1` to a new string object `"world"`. Now `string1` refers to `"world"`, but `string2` still refers to `"hello"`.
4. `StdOut.println(string1);`
   - This prints the value of `string1`, which is now `"world"`.
5. `StdOut.println(string2);`
   - This prints the value of `string2`, which is still `"hello"`.

So, the output of this code fragment will be:

```
world
hello
```